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ZNR UUUUU ZZH
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FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC PRIORITY 1468
INFO RUEHZA/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHBY/AMEMBASSY CANBERRA 0030
RUEHWL/AMEMBASSY WELLINGTON 1088
RHHMUNA/HQ USPACOM HONOLULU HI
RUEHGP/AMEMBASSY SINGAPORE 5513
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHDC
ZEN/AMCONSUL SURABAYA

UNCLAS SECTION 01 OF 03 JAKARTA 012733

SIPDIS

DEPT FOR EAP/MTS AND EB/ESC/IEC
DEPT PASS OPIC, EXIM, TDA
DOE FOR CUTLER/PI-32 AND NAKANO/PI-42
COMMERCE FOR USDOC 4430

FROM AMCONSUL SURABAYA # 2613

SENSITIVE
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E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [EPET](#) [PGOV](#) [ID](#)
SUBJECT: East Java Mudflow: Lapindo Financial Woes
Frustrate Relief Well Effort

Ref A: Jakarta 7839
Ref B: Jakarta 8250
Ref C: Jakarta 11110

1. (SBU) SUMMARY: PT. Lapindo Brantas (Lapindo) recently informed its relief well contractors that it no longer has funds to pay for relief well operations. Haliburton and other contractors, including local contractors, temporarily left the site, halting drilling operations, due to lack of payment and mismanagement by Lapindo. We informed the Presidential Palace of this development on Saturday, October 14, and they promised to follow up. The contractors began returning October 18 after Minister for Energy and Mineral Resources Purnomo Yusgiantoro guaranteed payment to all contractors. Minister for Social Welfare Bakrie and family sold their interest in Lapindo to an offshore Bakrie controlled shell company. Expat well contractors informed President Yudhoyono on October 8 of Lapindo's financial problems and resulting relief well delays. The mudflow has increased to over one million barrels per day (185,000 cubic meters) and underground erosion threatens East Java's main methane supply line. No level of government is providing humanitarian assistance to the 13-16,000 displaced residents now facing the rainy season's imminent arrival, and all levels of government are blaming each other for the increasingly serious humanitarian disaster. This problem has not hit the press, but U.S. contractors are concerned they will be blamed in the press if they end up leaving the job unfinished due to lack of payment. END SUMMARY.

Insolvent Lapindo Stiffs Relief Well Contractors

2. (SBU) On October 13, several expat well experts working on the Lapindo well blowout and mudflow eruption in Porong, East Java (see Refs A-C) described gross mismanagement and severe financial problems at the company. (Note: Lapindo is a company controlled by Minister of Social Welfare Aburizal Bakrie and his family.) Earlier that day the president-director of

Lapindo met with all expat contractors explaining that Lapindo was nearly out of cash and that they would need to wait for payments. The contractors were already unhappy with Lapindo's failure to pay invoices or for equipment and services needed to run the relief well. The relief well drilling operation has suffered from three evacuations caused by flooding and five work stoppages due to lack of payment to contractors by Lapindo. Local fuel and dump truck contractors are also not being paid, hampering drilling and dam wall construction efforts.

Haliburton Leaves

13. (SBU) On October 13, Haliburton announced to the other contractors it was tired of fighting with Lapindo over money and was leaving Surabaya immediately. Haliburton is providing the concrete pumping services and directional drilling expertise needed to connect the relief well to the blown out well. According to the expat well experts, Haliburton is the only company with sufficient directional drilling expertise needed to run such a complex drilling operation that is currently operating in Indonesia. The lack of directional drillers and fuel at the site prompted Century Drilling to stop all drilling activities at the relief well on October 13. Haliburton demanded USD 5 million in advance from Lapindo to drill the next section of the relief well. We informed the Presidential Palace of this development and they promised to follow up. On October 16, Lapindo reportedly told Haliburton they did not have the money

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to continue. Energy Minister Yusgiantoro then reportedly guaranteed payment to Haliburton assuring them that an escrow account with sufficient funds for a continuous drilling operation will be established. Yusgiantoro's guarantee was apparently sufficient to coax Haliburton to return and give comfort to other expat contractors that the GOI is now taking over financial responsibility for the relief well.

Bakrie Slips Lapindo In To Offshore Shell Company

14. (SBU) According to newspaper reports, Minister Bakrie and his family's 50 percent ownership in Lapindo was recently sold by PT. Energi Mega Persada (EMP) for USD 2 to an off-shore company, of unknown financial capacity, owned by Bakrie family members. Some observers believe the sale of Lapindo could be a prelude to an eventual bankruptcy filing by the company in an effort to shed liability and insulate the Bakrie family. PT. Medco Energy International (Medco), a 32 percent minority partner in Lapindo, admitted to the National Mudflow Disaster Management Team that they had not funded any of their USD 50 million of cash calls presented by Lapindo as the general partner. They explained that Lapindo had not provided any budgets, plans or evidence of how funds were spent to necessitate the cash call, as is required in their joint operating agreement. Santos, an 18 percent minority partner, apparently has funded all of its cash calls. Neither limited partner wants to take over the management of the blown well unless forced to by the government because they do not want to assume EMP's liability as the well operator and general partner.

Mudflow Increasing, Erosion Threatens Gas Line

15. (SBU) The mud volcano continues to increase its flow rate. A Dutch dyke and land reclamation expert now calculates the flow at greater than 1 million barrels

of mud per day (180,000 cubic meters, equivalent to Indonesia's daily national oil production). Lapindo has been trying unsuccessfully to pump the mud in to the Porong River since September and is now building a channel to allow the mud to flow directly from the mud detention lake to the Porong River. Experts estimate the imminent advent of the rainy season will add 450,000 barrels per day to the mud detention lake and make repair or construction of the loose earth dam walls impossible. GOI geologists are now finding that the land around the well site is sinking due to underground erosion from the high pressure hot water dissolving the shale under the mud lake and dam walls. The land under the mud lake has sunk over one foot and is sinking at an increasing rate. The underground erosion caused two dam wall collapses, as its weight caused sections of the wall to suddenly sink 4-5 feet, releasing large flows of hot mud. The geologists are concerned that the weight of toll road repairs, piling dirt on top of East Java's main methane line, could cause a sudden collapse and rupture the line. The toll road operator reopened one lane October 11 to try to alleviate the massive traffic jams as Surabaya residents head home for the Idul Fitri holiday.

SBY Informed of Lapindo Problems

16. (SBU) Neither the central nor local governments with jurisdiction in Porong have provided any significant humanitarian assistance to the 13-16,000 displaced residents, relying solely on insolvent Lapindo to provide funds for food and temporary shelter. President Yudhoyono made his second visit to the disaster site on October 8 and received a briefing by

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several expat well and mud experts. According to a person present at the briefing, the President was told that the well can be stopped but Lapindo's unwillingness to commit adequate resources to the project is making this nearly impossible. Apparently, participants expressed directly to the President high levels of frustration with a number of poor management practices at Lapindo. Well experts advised the president that mid January is now the best case timeframe to stop the mudflow and Lapindo needs an immediate USD 100 million "war chest" to kill the well and combat the mud. A ConGen political contact complained at a recent meeting that high level central government officials are pressuring local politicians to not oppose GOI strategies in dealing with the mud, such as dumping the hot, thick mud in to the Porong River. The central government officials threatened to publicize that Lapindo was drilling on an expired permit and that local officials should have been inspecting the well for use of casings while drilling was on-going, blaming local officials for the massive disaster. Our contact fears that if East Java residents believe that local government negligence or corruption caused the blowout, there will be large protest demonstrations.

American Companies Fear Blame For Lapindo Mistakes

17. (SBU) Haliburton and other expat contractors were forced to actually leave the relief well operation and risk being seen as leaving "poor" Lapindo/Indonesia in the lurch to finally prompt central government action and secure payment. The expat contractors expressed great frustration that Lapindo mismanagement has added months to the "kill operation" and caused the destruction of thousands more homes by wasting time looking for cheaper ways to operate rather than push forward with the best technology available. American

contractors are concerned that they may be made the scapegoats if the relief well is eventually unsuccessful or they leave the operation because of lack of payment.

PASCOE